



Tax Deductions for Hybrid and Alternative Fuel Vehicles

Energy Center fact sheet

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In order to encourage consumer interest in “clean fuel” vehicles, the federal income tax code allows deductions for the purchase of gas/electric hybrids and alternative fuel vehicles. Deductions range from \$2,000 for vehicles purchased before the end of 2005 to \$500 for vehicles purchased in 2006. It is not currently slated to continue beyond 2006.

In addition to the hybrid vehicles listed in the table (right), tax deductions are also available for alternative fuel vehicles that are propelled by one of the following fuels:

- Natural gas
- Liquified natural gas (LNG)
- Liquified petroleum gas (LPG)
- Hydrogen
- Electricity (e.g., some gasoline/electric hybrids)
- Any other fuel that is at least 85 percent alcohol or ether (e.g., E85)

Vehicle Make & Model	Model Years
Ford Escape Hybrid	2005
Honda Accord Hybrid	2005
Honda Civic Hybrid	2003-2005
Honda Insight	2000-2005
Toyota Prius	2001-2005
* Vehicles approved by IRS as of February 10, 2005. Other hybrids may be approved at a later date.	

To qualify for tax deductions, a vehicle must also:

- Be purchased for the buyer’s use and not for resale.
- Be driven mostly in the United States.
- Meet all federal and state emissions requirements.

Government agencies, tax exempt organizations and foreign entities are not eligible for “clean fuel” tax deductions.

Electric Vehicle Tax Credit

The purchase of an electric vehicle can make consumers eligible for a one-time federal income tax credit of up to \$4,000. Qualifying electric vehicles purchased new are eligible for a credit of 10 percent of the vehicle cost, up to \$4,000 per vehicle. The credit will be reduced to \$1,000 in 2006 and will expire at the end of the year. Gas/electric hybrids are not eligible for this tax credit.

Additional Information

For more information on “clean-fuel” deductions, visit the Web site www.fueleconomy.gov, which is sponsored by the U.S. Department of Energy and the U.S. Environmental Protection Agency. It has pages detailing tax deductions for hybrids (www.fueleconomy.gov/feg/tax_hybrid.shtml) and alternative fuels (www.fueleconomy.gov/feg/tax_afv.shtml).

For More Information

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